# RURAL UTAH CHILD DEVELOPMENT (A Non-Profit Organization)

### FINANCIAL STATEMENTS

**November 30, 2005** 

# RURAL UTAH CHILD DEVELOPMENT TABLE OF CONTENTS

	<u>1 agc</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expense	4
Statement of Cash Flows	
Notes to Financial Statements	6
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	10
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	12
Schedule of Expenditures of Federal Awards	
Notes to Schedule of Expenditures of Federal Awards	15
Schedule of Awarded Grant Revenues Over Actual Expenses	16
Schedule of Findings and Questioned Costs	17
Rural Utah Child Development's Response to Findings and Recommendations	
Summary Schedule of Prior Audit Findings	22
Supplementary Information:	•
Restated Statement of Functional Expenses - November 30, 2004	25
Restated Schedule of Expenditures of Federal Awards - November 30, 2004	26
Decree 1 Selected and Asserted Count Poyonyes Over Actual Eynenses - November 30, 2004	27



### Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA Gary K. Keddington, CPA Brent E. Christensen, CPA Jeffrey B. Hill, CPA

### INDEPENDENT AUDITOR'S REPORT

Board of Directors Rural Utah Child Development

We have audited the accompanying statement of financial position of Rural Utah Child Development (a non-profit Organization) as of November 30, 2005, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Utah Child Development as of November 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006 on our consideration of Rural Utah Child Development's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Rural Utah Child Development taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Jensen & Keddington

August 31, 2006

### RURAL UTAH CHILD DEVELOPMENT STATEMENT OF FINANCIAL POSITION November 30, 2005

Assets		
Cash	•	\$ 127,560
Accounts Receivable:		15 200
U.S. Department of Agriculture		15,399
Head Start		144,656
Prepaid expenses		8,530
Property and equipment - net	•	 720,770
Total Assets		\$ 1,016,915
Liabilities and Net Assets		•
Liabilities	÷	
Accounts payable		\$ 349,349
Accrued expenses		25,741
Deferred income		 3,606
Total Liabilities	,	378,696
Net Assets		
Unrestricted		 638,219
Total Net Assets		 638,219
Total Liabilities and Net Assets		\$ 1,016,915

### RURAL UTAH CHILD DEVELOPMENT STATEMENT OF ACTIVITIES For Year Ended November 30, 2005

Unrestricted Net Assets		
Support	\$	2 920 206
Federal Grant PA22	Þ	2,839,296
Federal Grant PA20		36,290
Federal Grant PA25		547,684
Federal Grant PA26		13,212
Inkind Services and supplies	,	1,095,438
USDA Food Grant		111,568
Other revenue		23,842
Total Support		4,667,330
Expenses		
Program services	·	÷
Head Start program PA22		2 <b>,672</b> ,599
Head Start program PA22 In-Kind		943,952
Head Start program PA20		36,290
Head Start program PA25		557,626
Head Start program PA25 In-Kind		151,486
Head Start program PA26		13,212
USDA Food Grant		111,568
Other program expenses		5,894
Total Program Services		4,492,627
Support Services		156.010
Head Start program PA22		176,812
Total Expenses		4,669,439
Increase (Decrease) in Unrestricted Net Assets		(2,109)
Net Assets at 11-30-04		640,328
Net Assets at 11-30-05	\$	638,219

# RURAL UTAH CHILD DEVELOPMENT STATEMENT OF FUNCTIONAL EXPENSE For Year Ended November 30, 2005

							4	rograi	Program Services						1			
	PA 22		PA 22		PA 20		PA 25	a.	PA 25	P.	PA 26	USDA	Other	Total		Support	٠.	
			In-Kind				,		In-Kind			Food	Program	Program	ا اع	Services	.   	Total
														3				
Wages	\$ 1,348,903		\$ 943,952	<b>2</b>		S	274,260	<u>ب</u>	151,486	<del>69</del>		<del>∽</del>	<u>د</u>	\$ 2,718,601	01	5 136,063		\$ 2,854,664
Employee benefits	442,688						187,433							630,121	21.	28,697		658,818
Travel	52,444		٠		31,323		17,478				13,212			114,457	157	3,371		117,828
Supplies			,															
Instructional	653	_	. 1				6,973							7,6	7,626			7,626
Other	127,276						17,200							144,476	9/1	820	٠	145,296
Child Nutrition	44,383					1.	8,529				•	111,568		164,480	081	٠	-	164,480
Health	11,034						246							11,280	087	130		11,410
Transportation	282,167	_												282,167	<i>L</i> 91		7	282,167
Occupancy										,				, ,				
Rent & maintenance	138,843	~					10,104							148,947	744	1,270		150,217
Utilities	84,572	~					10,717							95,289	583			95,289
Parent programs	40,237	7					6,784							47,021	121		131	47,152
Denreciation *	53.793	•					17,752							71,	71,545			71,545
Other	45,606	. 9			4,967		150						5,894		56,617	6,330		62,947
	\$ 2,672,599	∾  -   ∾	\$ 943,952	%	36,290	II	557,626	S.	\$ 151,486	S	\$ 13,212	\$ 111,568	\$ 5,894	4 \$ 4,492,627	· "	\$ 176,812	H	\$ 4,669,439

<sup>\* =</sup> The depreciation expense is permitted by Generally Accepted Accounting Procedures, however, it is not for the federal grant since federal funds were used to purchase the assets.

### RURAL UTAH CHILD DEVELOPMENT STATEMENT OF CASH FLOWS For Year Ended November 30, 2005

Cash Flows From Operating Activities		
Increase in unrestricted net assets	<b>\$</b>	(2,109)
Adjustments to reconcile increase in unrestricted net assets to net cash provided (used)		
Depreciation		71,545
(Increase) decrease in operating assets:  Accounts receivable - net Prepaid expenses		(1 <b>09</b> ,736) 1,789
Increase (decrease) in operating liabilities: Accounts payable Accrued liabilities Deferred revenue	· · · · · · · · · · · · · · · · · · ·	244,437 (137,108) 3,606
Net Cash Provided by Operating Activities		72,424
Cash Flows From Investing Activity	• •	
Purchase of property and equipment		(51,490)
Net Cash Used by Investing Activity		(51,490)
Net Increase in Cash		20,934
Cash Balance, Beginning of Year	· 	106,626
Cash Balance, End of Year	<u>\$.</u>	127,560

# RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS

### NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Rural Utah Child Development (the Organization) was organized as a Utah private non-profit corporation under the provisions of chapter 6 of Title 16, Utah code Annotated, 1953 on March 6, 1966. The Organization is to administer and operate Head Start and Early Head Start programs throughout the southeastern part of the State of Utah, and is funded by grants from the Department of Health and Human Services.

### Significant Accounting Policies

**Basis of Accounting** 

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Concentration of Risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant risk on cash and cash equivalents.

The Organization receives substantially all of its funding from governmental sources. Decreases in governmental support would have an adverse effect upon the Organization.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and highly liquid investments with original maturities of three months or less.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables. Receivables are written off when they are determined to be uncollectible. The allowance for doubtful accounts at November 30, 2005 was \$0.

Property and Equipment

The Organization capitalizes all equipment acquisitions in excess of \$500. Purchased property and equipment is capitalized at cost, where donated as support at their estimated market value at the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Fixed assets are depreciated using the straight-line method over the estimated useful lives of the assets.

Substantially all of the property and equipment have been purchased with funds from the Department of Heath and Human Services. In the event that these items are disposed of, the Department of Health and Human Services may require any proceeds be refunded to them.

### RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS (Continued)

### NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

Property and Equipment (Continued)

A provision for depreciation of each asset has been computed using the straight-line method over its estimated useful life, which range from 5 to 30 years. The cost of the assets, less the estimated residual value, determines the depreciable basis.

### Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization presents a statement of cash flows. As of November 30, 2005, the Organization did not have any temporarily or permanently restricted net assets.

Income Taxes

The Organization qualifies as exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code, and therefore, has no provision for income taxes.

Grant Revenue

The Organization receives Head Start and Early Head Start Grants from the U.S. Department of Health and Human Services. Grant revenues are recognized as expended up to the authorized grant award. The federal grants awarded to the Organization relating to funds included in this audit report consist of the following:

- Health and Human Services, Head Start Grant No. 08CH0059/38, grant period December 1, 2004, through November 30, 2005. This grant is restricted for the purpose the grant was awarded and any excess is to be returned to the funding agency.
- b. Utah State Office of Education Grant for periods October 1, 2004 through September 30, 2005 and October 1, 2005 through September 30, 2006. These grants are restricted for the purposes the grants were awarded and any excesses are to be returned to the funding agency.

The Organization sponsors a defined contribution pension plan that covers substantially all employees. Contributions to the plan are based on a percentage of gross wages under Code Section 401K deferment. For the period ended November 30, 2005 the amount of pensions expense was \$80,181.

Contributed Support

The Organization occupies at reduced or no charge certain premises owned by private individuals. The estimated fair rental value of the premises is reported as support and expense in the period in which the premises are used.

# RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 1 NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

### Contributed Support (Continued)

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization programs, principally in educational assistance. The value of this contributed time is accounted for by recognizing as support and expense the numbers of hours provided multiplied by the wage rate that would have to be paid if the volunteers were employees of the Organization.

Supplies and transportation are provided by various individuals and entities at reduced or no cost to the Organization. The value of these supplies and transportation is accounted for by recognizing as support and expense the fair value of the supplies or transportation in excess of actual payment as if actual cash payment had occurred.

### Advertising

The Organization expenses advertising costs as incurred.

### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### NOTE 2 PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of November 30, 2005.

		Beginning Balance	A	dditions	De	letions		Ending Balance
Land	\$	135,100	\$	·	\$		\$	135,100
Building		712,746		•				712,746
Vehicles		<b>365,500</b>		18,431				383,931
Office equipment		233,165		9,225				242,390
Center equipment		132,398		23,834				156,232
		1,578,909		51,490		-	-	1,630,399
Accumulated depreciation	_	(838,085)		(71,544)				(909,629)
	\$	740,824	\$	(20,054)	\$	\ <u> </u>	\$	720,770

# RURAL UTAH CHILD DEVELOPMENT NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 LEASE COMMITMENTS

The facilities presently used to provide office space and classrooms not otherwise owned by the Organization are leased under short-term agreements that can be renewed under similar terms contingent upon grant funding being renewed. Lease payments for the year ended November 30, 2005 were \$81,810.

### NOTE 4 PRIOR PERIOD ADJUSTMENT

During the year, management noted that in the prior year a deposit in transit had inadvertently been included in grant revenues when it belonged in the next year's revenues. As a result, the beginning balance of Head Start grant receivable has been increased by \$164,800. The net effect on the prior year's financial statements was a reduction of cash and an increase in expenditures, which results in an increase in both revenues and in the Head Start grant receivable. Because both revenues and expenditures increased by the same amount, there was no effect on unrestricted net assets. The effects of the prior period adjustment on selected financial data have been included in this report as Supplementary Information.



### Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA Gary K. Keddington, CPA Brent E. Christensen, CPA Jeffrey B. Hill, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors Rural Utah Child Development

We have audited the accompanying financial statements of Rural Utah Child Development (a non-profit Organization) as of and for the year ended November 30, 2005, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Rural Utah Child Development's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Rural Utah Child Development's ability to initiate record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items B numbers 1 through 5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items B numbers 1 and 2 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Utah Child Development's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items B numbers 1 through 5.

We also noted certain additional matters that we have report to management in the Schedule of Finding and Questioned Costs section of this report.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 31, 2006

Jensen & Keddington



### Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA Gary K. Keddington, CPA Brent E. Christensen, CPA Jeffrey B. Hill, CPA

# REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors Rural Utah Child Development

### Compliance

We have audited the compliance of Rural Utah Child Development (a non-profit Organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended November 30, 2005. Rural Utah Child Development's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Rural Utah Child Development's management. Our responsibility is to express an opinion on Rural Utah Child Development's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Rural Utah Child Development's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Rural Utah Child Development's compliance with those requirements.

As described in item C numbers 1 through 5 in the accompanying Schedule of Findings and Questioned Costs, Rural Utah Child Development did not comply with requirements regarding maintaining adequate accounting records of expenditures charged to expenditures that are applicable to its grant from the U.S. Department of Health and Human Services. Compliance with such requirements is necessary, in our opinion, for Rural Utah Child Development to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Rural Utah Child Development complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended November 30, 2005. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items C numbers 6 and 7.

### Internal Control Over Compliance

The management of Rural Utah Child Development is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Rural Utah Child Development's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Rural Utah Child Development's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items C numbers 1 through 7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessary disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider C numbers 1 and 2 to be material weaknesses.

This report is intended solely for the information of audit committee, management, Board of Directors and others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

August 31, 2006

Jensen & Keddington

### RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements Expenditures
U.S. Department of Health and Human Services	-		
Direct Program:	<u>.</u> •	•	
PA 22 Head Start	<b>93.60</b> 0	NA	\$ 2,839,296
PA 20 CDA Training	93.600	NA	36,290
PA 25 Early Head Start	93.600	NA	547,684
PA 26 Early Head Start	93.600	NA	13,212
Total U.S. Department of Health and Human Services			3,436,482
U.S. Department of Agriculture	· -		
Pass Through The Utah State Office Of Education Food Distribution	10.558	G-4	111,568
Total U.S. Department of Agriculture			111,568
Total Federal Financial Assistance			\$ 3,548,050

# RURAL UTAH CHILD DEVELOPMENT NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2005

**Significant Accounting Policies** 

The following information regarding the schedule of expenditures of federal awards is provided to assist the reader in understanding the accounting policies regarding, and the nature of the federal awards.

- a. Basis of Accounting The schedule of expenditures of federal awards is presented on the accrual basis of accounting, the same basis used by the Organization in its financial reporting. Receivables are recorded when appropriate program expenditures are made and the Organization has a claim for reimbursement. For purpose of the Schedule of Expenditures of Federal Awards, the Organization considers equipment that has been capitalized, purchased with Federal funds, to be expenditures.
- b. Depreciation is not included in the Schedule of Expenditures of Federal Awards because all property and equipment has been purchased with Federal grant money. Therefore, including depreciation would result in the Organization being reimbursed for the expenditure twice.
- c. Pass-Through Source of Awards -The Organization receives the bulk of its federal award programs from the U.S. Department of Health and Human Services.

### RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF AWARDED GRANT REVENUES OVER ACTUAL EXPENSES For the Year Ended November 30, 2005

Award Number		08CH00	)59/39		- T
	PA - 22	PA - 20	PA - 25	PA - 26	<u>Total</u>
Grant budgeted award amount	\$ 2,855,390	\$ 36,290	\$ 547,684	\$ 13,212	\$ 3,452,576
Actual grant expenses	(2,839,296)	(36,290)	(547,684)	(13,212)	(3,436,482)
Grant budgeted award amount over (under) actual expenses	\$ 16,094	\$ -	\$ -	<u>\$</u>	\$ 16,094

The above schedule shows the grant amounts that were awarded by the U.S. Department of Health and Human Services compared to the actual grant expenditures.

### RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2005

### A. SUMMARY OF AUDIT RESULTS

- 1. The auditor's report expresses an unqualified opinion on the financial statements of Rural Utah Child Development.
- 2. There were two material weaknesses disclosed during the audit of the financial statements.
- 3. There were two instances of noncompliance material to the financial statements of Rural Utah Child Development, which would be required to be reported in accordance with Government Auditing Standards, disclosed during the audit.
- 4. There were two material weaknesses and five instances of reportable conditions in internal control which were disclosed during the audit of the major federal award programs of Rural Utah Child Development.
- 5. The auditor's report on compliance for the major federal award programs for Rural Utah Child Development expresses a qualified opinion.
- 6. There were five audit findings relative to the major federal award program that are required to be reported in accordance with Government Auditing Standards.
- 7. The programs tested as major programs included:
  Department of Health and Human Services Head Start CFDA No. 93.600
- 8. The threshold for distinguishing Types A programs was \$300,000.
- 9. Rural Utah Child Development does not quality as a low-risk auditee.

### B. FINDINGS - FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS

1. No support for journal entry posted (Material Weaknesses)
Finding

Management has the responsibility to ensure that journal entries made to the general ledger are appropriate and have been supported by the appropriate documentation. During our audit we noted the following. The accountant posted a journal entry which increased both revenues and expenses. The accountant stated that the revenues were being increased to match the grant budget. This would result in an expense being recorded when no expenses had actually been incurred. This appears to have been caused by the accountant not understanding the basis for posting grant revenues.

### Recommendation

We suggest the management of Rural Utah Child Development procure additional training for the accountant to ensure that this does not happen in the future.

# RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended November 30, 2005

### B. <u>FINDINGS – FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS</u> (Continued)

### 2. Bank Reconciliation (Material Weakness)

### Finding

Management has the responsibility to ensure that the cash balance on the general ledger is reconciled to the bank balance. During our audit we noted that the book balance used in the original bank reconciliation, prepared for the fiscal year end, did not match the book balance on the trial balance. We noted that checks written after year end, in December 2005, had been posted as reductions to cash as of November 30, 2005, rather than to set up an accounts payable. This results in both the cash balance and accounts payable being understated at year end. These items were adjusted during the audit.

### Recommendation

We suggest that the management of Rural Utah Child Development make sure that the cash balance on the general ledger is reconciled to the bank balance.

### 3. Payroll Test (Reportable Condition)

### **Finding**

Management has the responsibility to ensure amounts paid to employees agree with supporting documents such as, time cards and approved pay plan in the employee's personnel file. During our audit, we performed a payroll test and found that for 3 out of 35 employees tested, the time sheets did not match the hours paid. These errors resulted in employees being under paid by \$24.05. Also, for one out of 35 employees tested there was not an approved pay plan in the employee's personnel file. The auditor performed additional procedures and determined that payroll expense did not need to be adjusted.

### Recommendation

We suggest that the procedures be put in place to ensure that the amount employees are paid matches the employees time sheet and that proper documentation be put in the employees personnel file which supports the salary or hourly rate paid.

### 4. Segregation of Duties - Cash Receipts (Reportable Condition)

### **Finding**

Management has the responsibility to ensure that all assets, such as cash, are protected from possible theft. During our audit we noted that there was not proper segregation of duties for cash receipts. The accountant has access to the asset, posts entries to the general ledger system and also takes the deposit to the bank. This means that the accountant could take the asset then alter the records so that the missing asset would go undetected.

### Recommendation

We suggest that the management of Rural Utah Child Development give the accountant copies of the cash receipts to post, and have the administrative assistant, prepare the deposit and have someone else deposit the money.

### RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended November 30, 2005

### FINDINGS - FINANCIAL STATEMENTS AUDIT AND GOVERNMENT AUDITING STANDARDS (Continued)

Segregation of Duties - Cash Disbursements (Reportable Condition)

Finding

Management has the responsibility to ensure that all assets, such as cash, are protected from possible theft. During our audit we noted that there was not proper segregation of duties for cash disbursement. The accountant has access to the asset, posts entries to the general ledger system, and also sends out the payments. This means that the accountant could have checks signed then modify them to pay personal bills etc., and then adjust the accounting records so that it would go undetected.

Recommendation

We suggest that the management of Rural Utah Child Development have the accountant print checks, give the checks with appropriate back-up to the check signers and have someone else send out the payments. We would also suggest that the signers scan the cleared checks on the bank statement for appropriateness.

### Working Capital 6.

**Finding** 

We observed that as of November 30, 2005, the Organization does not appear to have enough working capital to pay the liabilities without using draws on the next year's grant funds. The lack of working capital appears to have occurred in prior years. Management is aware of this situation, as well as, the Federal cognizant agent over the Federal grants.

Recommendation

We recommend that the Organization implement procedure to increase working capital from non-Federal sources.

### FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT Ċ.

- No support for journal entry posted (Material Weaknesses) See Finding on page 17, B.1.
- Bank Reconciliation (Material Weakness) 2. See Finding on page 18, B.2.
- Payroll Test (Reportable Condition) 3. See Finding on page 18, B.3.
- Segregation of Duties Cash Receipts (Reportable Condition) 4. See Finding on page 18, B.4.
- Segregation of Duties Cash Disbursements (Reportable Condition) See Finding on page 19, B.5.

### RURAL UTAH CHILD DEVELOPMENT SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2005

### <u>FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGR</u> C. (Continued)

### In-Kind - Missing Records (Reportable Condition)

Finding

Management is responsible for maintaining supporting documentation for in-kind donations claimed on the financial statements. During our audit we tested the in-kind donations recorded. We traced monthly totals for individual sites to supporting documentation. Out of 35 selected for testing, there were four which had no supporting documentation, or the documentation did not agree with the amount claimed. As a result, \$157.53 claimed as in-kind revenues and expenses were eliminated during the audit. Management was unable to find the supporting documents.

Recommendation

We suggest the management of Rural Utah Child Development develop procedures to ensure that accurate records are maintained for all in-kind revenues claimed.

### In-Kind - Revenues claimed twice (Reportable Condition) 7.

Finding

Management has the responsibility to insure that all in-kind donations are claimed only once. During our audit we tested the in-kind donations recorded. We compared the monthly totals of inkind revenues claimed for individual sites to supporting documentation. Out of 35 selected for testing there was one which had claimed the revenue in two separate months. As a result, \$1,637.94 claimed as in-kind revenues and expenses were eliminated during the audit. This appears to have been caused by inadvertent errors in accumulating the total of supporting documents.

Recommendation

We suggest the management of Rural Utah Child Development develop procedures to ensure that all in-kind revenues are recorded once.

### RURAL UTAH CHILD DEVELOPMENT'S RESPONSE TO FINDINGS AND RECOMMENDATIONS For the Year Ended November 30, 2005

### Section B, Finding #1 - No support for journal entry posted (Material Weaknesses)

Correction Action.

RUCD has hired a new accountant and RUCD will ensure that the new accountant has training and skills to ensure that proper accounting procedures are in place and implemented.

### Section B, Finding #2 - Bank Reconciliation (Material Weakness)

Correction Action.

RUCD will make sure that the cash balance on the general ledger is reconciled to the bank balance.

### Section B, Finding #3 - Payroll Test (Reportable Condition)

Correction Action

RUCD will ensure that employees pay matches the employee time sheets. Procedures will be put into place to assure that proper documentation will be in the employee personnel files providing salary or hourly rate.

### Section B, Finding #4 - Segregation of Duties - Cash Receipts (Reportable Condition)

Corrective Action

To provide more segregation of duties the administrative assistant will make copies of the cash receipts to post, the accountant will prepare the deposit and have someone else deposit the money.

### Section B, Finding #5 - Segregation of Duties - Cash Disbursements (Reportable Condition)

Corrective Action

Rural Utah Child Development have the accountant print checks, give the checks with appropriate back-up to the check signers and have someone else send out the payments. RUCD check signers will also scan the cleared checks on the bank statement for appropriateness.

### Section B, Finding #6 - Working Capital

Corrective Action

RUCD will work with the funding source to determine what needs to be done to correct this issue.

### Section C, Finding #6 - In-Kind - Missing Records (Reportable Condition)

Corrective Action

RUCD will continue to work on documentation of in-kind. Procures will be reviewed and changed to assist in the staff understanding the requirements that in-kind be correctly documented and supporting documentation provided.

### Section C, Finding #7 - In-Kind - Revenues claimed twice (Reportable Condition)

Corrective Action

Rural Utah Child Development will develop procedures to ensure that all in-kind revenues are recorded once. Tighter monitoring will be conducted also.

### RURAL UTAH CHILD DEVELOPMENT SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS For the Year Ended November 30, 2005

### General Ledger Detail (Material Weaknesses)

**Finding** 

During the audit we observed that an outside accountant maintained the accounting system for the first 10 months of the year. Then RUCD hired an in-house accountant for the last two months of the year. The ending balance in each account (for the activity of the first 10 months of the year) was recorded as beginning balances on the in-house accounting system. Management has contacted the prior outside accountant and has not been able to obtain a detail of the transactions that were recorded during the first 10 months of the year. Therefore, there are incomplete accounting records that would show what transactions are in each account for the first 10 months. According to management, the former outside accountant indicated that he had deleted the information from his computer system and could not provide any detail for the transactions that occurred.

RUCD did not have an internal control system in place to ensure that complete and accurate accounting records were maintained. During the audit, management was able to recreate satisfactory detail of the accounting records for the first 10 months of the year.

Recommendation

We suggest the management of Rural Utah Child Development ensure that each month the accounting detail supporting revenues and expenditures be printed.

Current Status

The Organization has implemented procedures to correct this finding

### Improper Account Balances (Material Weaknesses) 2.

We noted that when the trial balance from the former outside accountant was recorded into the new accounting system, by the in-house accountant, the liabilities and equity accounts were recorded as debits when they should have been credits or visa versa (they were recorded as negative numbers when they should have been positive numbers etc.). When the accounting records didn't balance, the out-of-balance amount was improperly recorded to the equity account. The accounting records that were received to be audited contained balances in the liabilities and equity accounts that were incorrect and did not agree with the prior outside accountant's records. These balances had not been researched and corrected prior to the audit. During the audit, we adjusted the liability and equity section accounts to their proper balances as of the end of the year. We were unable to view the complete details of each account and determine why the year end balances were improper.

Recommendation

We suggest the management of Rural Utah Child Development develop procedures to ensure that they understand what each account balance represents and ensure that it is proper.

Current Status

The Organization has implemented procedures to correct this finding

### RURAL UTAH CHILD DEVELOPMENT SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended November 30, 2005

### Responsibility For Trial Balance Accounts (Material Weaknesses)

Finding

Management and the accountant have the responsibility to know what is in each account on the trial balance and financial statements. When we ask what various accounts on the trial balance represented, we were told that they were balances from the former outside accountant and the accountant did not take responsibility for the balances and was unsure if the balance were proper. We observed incorrect asset, liability, equity, revenue, and expenditure account balances that should have been identified, researched, and adjusted or eliminated before the audit. The accounts were adjusted as part of the audit. The current accountant does not appear to understand that he is responsible for each account on the trial balance including the accounts and accounting information provided by the prior outside accountant.

Recommendation

We suggest the management of Rural Utah Child Development insure that they know what is in each account on the trial balance and financial statements.

Current Status

The Organization has implemented procedures to correct this finding

### Blank Checks

**Finding** 

Management has the responsibility to ensure that all assets such as cash are protected from possible theft. During our audit we noted that the blank checks are kept in an office which is not locked when the employee is not there. This exposes RUCD to potential theft.

Recommendation

We suggest the management of Rural Utah Child Development ensure that the blank checks are not where unauthorized individuals can gain access to them.

Current Status

The Organization has implemented procedures to correct this finding

### Working Capital

Finding

We observed that as of November 30, 2004, the Organization does not appear to have enough working capital to pay the liabilities without using draws on the next year's grant funds. The lack of working capital appears to have occurred in prior years. Management is aware of this situation, as well as, the Federal cognizant agent over the Federal grants.

We recommend that the Organization implement procedure to increase working capital from non-Federal sources.

Current Status

Management is aware of this and is developing a plan to correct the situation. A similar finding was noted in the current year.

### RURAL UTAH CHILD DEVELOPMENT SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended November 30, 2005

### In-Kind - Missing Records (Reportable Condition)

Finding

Management is responsible for maintaining proper records that record in-kind donations received. During our audit we tested the system which records the in-kind labor donations received by RUCD. We traced monthly totals for individual sites to supporting documentation. Out of 35 selected for testing, there were three which had no supporting documentation. As a result, \$2,425 claimed as inkind revenues and expenses were eliminated during the audit. Management was unable to find the supporting documents.

Recommendation

We suggest the management develop procedures to ensure that records are maintained for all in-kind revenues claimed.

Current Status

Management is aware of this and is developing a plan to correct the situation. A similar finding was noted in the current year.

### In-Kind - revenues claimed not equal to records (Reportable Condition)

**Finding** 

Management has the responsibility to insure that all in-kind revenues are summarized and totaled correctly. During our audit we tested the system which records the in-kind revenues received. We compared the monthly totals of in-kind revenues claimed for individual sites to supporting documentation. Out of 35 selected for testing, there were five which had claimed more revenue then the supporting documentation indicated. As a result, \$1,108 claimed as in-kind revenues and expenses were eliminated during the audit. This appears to have been caused by inadvertent errors in accumulating the total of supporting documents.

Recommendation

We suggest the management develop procedures to ensure that all in-kind revenues are summarized and totaled correctly.

Current Status

Management is aware of this and is developing a plan to correct the situation. A similar finding was noted in the current year.

### In-Kind - no description of allowable activity (Reportable Condition)

Finding

Management has the responsibility to ensure that all in-kind revenues have been documented as allowable activities. During our audit we tested the system which records the in-kind revenues received by Rural Utah Child Development. We scanned the documentation of monthly totals of inkind revenues claimed for individual sites to determine if the claim was for an allowable activity. Out of 35 selected for testing, two did not have a description of the allowable activity. As a result, \$510 claimed as in-kind revenues and expenses were eliminated during the audit. This appears to have been oversights in the documentation process.

Recommendation

We suggest the management of Rural Utah Child Development develop procedures to ensure that all in-kind revenues have documented the allowable activity.

Current Status

The Organization has implemented procedures to correct this finding

### SUPPLEMENTARY INFORMATION

# RESTATED SCHEDULE OF FUNCTIONAL EXPENSES For the Year Ended November 30, 2004

						Program Services	n Servi	ses	-						•
	PA 22		PA 22	PA 20		PA 25		PA 25	PA 26		USDA	Total	S.	Support	
		-E	In-Kind				1	In-Kind			Food	Program	Š	Services	Total
Wages	\$ 1,410,380	· <b>6</b>	809'065		€	363,228	S	89,283				\$ 2,453,499	8	96,674	\$ 2,550,173
Employee benefits	434,067		109,733		٠	93,033		7,684				644,517	7.	41,493	686,010
Travel	68,097		42,024	8,948		15,816		2,320	-	1,718		138,923	3	3,568	142,491
Supplies												•			
Instructional	300					1,705					,	2,005	2		2,005
Other	164,042		37,561	5,000	_	13,878	-	1,537	-	1,110		223,128		4,915	228,043
Child Nutrition	30,652					2,454					130,036	163,142	2		163,142
Health	12,481					682		-				13,163		163	13,326
Transportation	258,237		,			•			٠			258,237	7		258,237
Occupancy				•								•			
Rent & maintenance	140,999					15,555		,				156,554	4	1,176	157,730
Utilities	91,581					9,047						100,628	œ		100,628
Parent programs	49,270					7,661						56,931	-	175	57,106
Depreciation	60,296					21,898						82,194	4		<b>82</b> ,194
Other	104,046			22,342	ا	2,316			10	10,384		139,088	l	5,406	144,494
	\$ 2,824,448 \$ 779,926 \$	<b>6</b>	779,926	\$ 36,290	<b>∞</b> 	547,273	 :	100,824	\$ 13	13,212	\$ 130,036	\$ 4,432,009	و م	153,570	\$ 4,585,579

# RURAL UTAH CHILD DEVELOPMENT RESTATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Disbursements Expenditures
U.S. Department of Health and Human Services			
Direct Program:			
PA 22 Full Year Head Start	93.600	NA	\$ 2,940,016
PA 20 CDA Training	93. <b>60</b> 0	NA	36,290
PA 25 Early Head Start	93 <b>.60</b> 0	NA	<b>535,036</b>
PA 26 Early Head Start	93.600	NA	13,212
Total U.S. Department of Health and Human Services			3,524,554
U.S. Department of Agriculture	_		
Pass Through The Utah State Office Of Education Food Distribution	10.558	G-4	130,036
Total U.S. Department of Agriculture			130,036
Total Federal Financial Assistance			\$ 3,654,590

# RURAL UTAH CHILD DEVELOPMENT RESTATED SCHEDULE OF AWARDED GRANT REVENUES OVER ACTUAL EXPENSES For the Year Ended November 30, 2004

Award Number		08CH00	)59/38		0 -
	PA - 22	PA - 20	PA - 25	PA - 26	Total
Grant budgeted award amount	<b>\$</b> 2, <b>974</b> ,781	\$ 36,290	\$ 547,684	\$ 13,212	\$ 3,571,967
Actual grant expenses	(2,940,016)	(36,290)	(535,036)	(13,212)	(3,524,554)
Grant budgeted award amount over (under) actual expenses	\$ 34,765	<u>\$</u>	\$ 12,648	<u>\$</u>	\$ 47,413